

# Agency Strategic Plan

## Department of the Treasury

### Agency Mission, Vision, and Values

#### **Mission Statement:**

The Department of the Treasury is dedicated to serving the Commonwealth by providing excellent financial management and outstanding customer service.

#### **Agency Vision:**

The vision for the Department of the Treasury is to excel as a national leader in fiscal management, fiduciary oversight and customer service in a manner that ensures the trust and confidence of our citizens, customers and the financial community.

#### **Agency Values:**

- **Customer**  
Recognizing that customer service is our highest priority.
- **Integrity**  
Maintaining the highest ethical standards and conducting our business and ourselves accordingly.
- **Professionalism**  
Conducting ourselves in a professional manner in which the application of our knowledge, skills and abilities produces work of the highest quality.
- **Creativity**  
Continually challenging ourselves to seek innovative and cost-effective methods to provide services.
- **Performance**  
Striving to improve performance in a competent and knowledgeable manner in achieving our mission.
- **Accountability**  
Acknowledging accountability for our actions.
- **Staff Support**  
Setting priorities to ensure high-quality services are delivered by a diverse workforce that is properly supported, trained and equipped with adequate resources.
- **Working Environment**  
Striving to create a working environment that maximizes the effectiveness and efficiency of our staff; provides clear, measurable objectives and accountability; and attracts, motivates, rewards and retains an outstanding workforce.

### Agency Executive Progress Report

#### **Current Service Performance**

The Department of the Treasury is an innovative, customer-driven, results-oriented state agency providing statewide financial management services for the Commonwealth. In the fiscal year 2005, Treasury invested over \$8.5 billion in state and local government funds, participated in financing \$3.1 billion in debt obligations, processed 7.6 million checks, and collected \$74.1 million in unclaimed property revenue, returned to owners \$25.4 million, and transferred \$85.0 million to the Literary Fund for public education purposes. In addition, Treasury provided liability and property insurance for the Commonwealth, its agencies and institutions, and local officials and employees in over 600 political subdivisions, and manages the Commonwealth's statewide banking network that accelerates the deposit and availability of state funds received from approximately 418 regional depositing locations.

Treasury's philosophy of service through innovation is part of our culture and has been the hallmark of our program and service delivery. Treasury has a long history of increased productivity and response to customer needs. Time and again, Treasury has been successful in identifying a customer need, developing a solution to

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fit the need, securing the authority and resources necessary to deliver the solution and then, most importantly, making it happen. As a result, Treasury has been a leader in identifying, developing and implementing new programs to better serve our customers.

Treasury's current service performance is measured in how well the organization is achieving its desired service outcomes as illustrated by the following service area analysis:

**Debt Management Service Area** – The responsibilities of this service area include the issuance and management of debt obligations of the Commonwealth, its agencies, institutions, and certain authorities in the most efficient, prudent, and cost-effective manner possible while preserving the Commonwealth's high credit ratings. The associated outcomes include:

- The maintenance of the Commonwealth's triple-A ratings is the result of effective and efficient management of the state's debt capacity.
- These premium bond ratings allow capital projects to be financed in the most efficient and cost-effective manner, while ensuring the most favorable borrowing rates available.
- The attention given to compliance with debt issuance statutes and regulations ensures that the tax-exempt status of the debt obligations is maintained.
- Agencies and institutions of the Commonwealth seek the expert advice, assistance, and utilization of programs supported by this service area.
- In fiscal year 2005, the service area transacted 22 separate debt issues totaling \$3.1 billion, of which \$1.4 billion represented refundings that generated \$55.0 million in savings (\$16.0 million to localities and the remaining \$39.0 million to the Commonwealth).

**Insurance Services Service Area** – The responsibilities of this service area include the administration of the statewide insurance and self-insurance programs to protect the assets of the Commonwealth through the prudent and cost-effective management of the State Insurance Reserve Trust Fund, claim and litigation management, pre-litigation legal advice and mediation programs, and legal training and loss control and prevention programs. The associated outcomes include:

- The development of statewide insurance plans that maximize risk protection through administration of liability and property insurance and fidelity bonding programs.
- The provision of coverage required through the recent passage of legislation to provide liability coverage to free clinics and related health care providers and coverage of attorney fees and expenses awarded by a court in actions against the Commonwealth.
- The management of claims and litigation in an expeditious and effective manner, providing timely and accurate information.
- The development of loss prevention and control training programs and consultation provided to state agencies and localities to address risk management issues and minimize litigation costs.
- The development and administration of an automated property inventory system and risk management information system provide excellent customer service resources.
- In fiscal year 2005, the service area insured over 11,200 state buildings and contents with a value of \$18.5 billion and processed over 4,500 claims.

**Banking and Investment Services Area** – The responsibilities of this service area include (1) the management of State funds to maximize investment earnings within levels of prudence established by statute and guidelines, (2) the administration and management of the Local Government Investment Pool (LGIP), (3) the administration of the State Non-Arbitrage Program (SNAP) to ensure the investment of bond proceeds are in compliance with federal arbitrage rebate regulations, and (4) the implementation in conjunction with agencies and institutions, as well as financial institution partners, of an effective and efficient statewide banking network developed to provide state-of-the-art cash management services and ensure the highest quality services are available to our customers. The associated outcomes include:

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- The successful management of investments that has over the years resulted in investment income yields higher than benchmarked indices.
- The development of externally managed extended duration portfolios to maximize investment income. Guidelines and policies for this program are reviewed annually to insure they accurately reflect market conditions, management preferences and a balanced risk-reward profile.
- The successful management of a more aggressive securities lending program has produced income of over \$2.0 million in fiscal year 2005.
- The successful renegotiation of management fees paid to external managers resulting in an annual savings of \$300,000.
- The administration and management of a Local Government Investment Pool (LGIP) for the benefit of localities. The LGIP offers localities the opportunity to pool their funds in a professionally managed investment fund structured to comply with Virginia's Investment of Public Funds statutes. The return on funds invested in the LGIP has exceeded its benchmarks throughout the years, enabling localities to enhance their investment income. In June 2005 the LGIP received an AAAM rating from Standard & Poor's, which is the highest rating assigned to a principal stability fund.
- The development of an extensive, efficient statewide banking network of 44 regional banks and 4 concentration banks that accelerates the deposit and availability of state funds received from approximately 418 regional depositing locations throughout the state.
- The development of a number of cash management programs and banking services to efficiently manage the flow of funds for agencies and institutions.
- The successful management of the SNAP program to ensure compliance with federal arbitrage requirements.
- The forecasting of receipts and disbursements to maximize investable balances.
- Currently, this service area has \$8.6 billion in managed investment portfolios, comprised of \$5.1 billion in the general account portfolio, \$2.6 billion in the LGIP portfolio, \$768.0 million in special portfolios, and \$78.5 million in outside trustee portfolios.

Unclaimed Property Administration Service Area – The responsibilities of this service area include administration of the Uniform Disposition of Unclaimed Property Act and the Escheats Generally Statute, which enable the return of unclaimed property to the rightful owners and the return of abandoned real property to an active tax status within the state. The associated outcomes include:

- The development of systems and programs to ensure the processing of claims is made in an expeditious and effective manner, providing timely and accurate responses to inquiries to ensure the rightful owner is verified and property is returned.
- The conducting of educational outreach and audits to enhance holder compliance and enforcement, resulting in increased collections. In addition, the results of last year's amnesty campaign to encourage holder compliance increased both compliance by holders and the reporting of property previously unreported. Through fiscal year 2005, the amnesty program is responsible for an additional \$2.7 million in property previously unreported.
- The conducting of outreach efforts to enhance reunification of property with its rightful owners.
- The successful initiation and enactment of legislation during the 2004 General Assembly Session requiring electronic reporting from holders having 25 or more properties to report. As a result, electronic reports have more than tripled, increasing our efficiency.
- In fiscal year 2005, this service area collected \$74.1 million in unclaimed property revenue, \$25.4 million was returned to rightful owners and \$85.0 million was transferred to the Literary Fund for public education purposes. In addition, \$247,000 was collected from two escheat sales, resulting in a net transfer after expenses and tax liens paid to localities of \$207,000 to the Literary Fund.

Accounting and Trust Services Service Area – The responsibilities of this service area include providing support services to Treasury and the Treasury Board for budgeting and accounting for investments, trust and bond funds, debt issuances and several authorities. In addition, the service area is responsible for the administration

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of the Security for Public Deposits Act to secure public deposits held in banking institutions through the collateralization of securities and the Insurance Collateral Program to safekeep securities pledged by insurance companies transacting business in the Commonwealth. The associated outcomes include:

- The development of systems and programs that have enhanced the accurate and timely accounting for investments and debt structures.
- The accurate preparation of financial statements for boards and authorities staffed by Treasury.
- The timely payment of all debt service payments for debt obligations ensuring compliance with debt instruments.
- The administration of the Security for Public Deposits Act in a manner that safeguards Virginia public deposits held by banks and savings institutions. The program ensures compliance by public depositories and the safety of public deposits through the review of monthly bank reports and follow-up with banks not in compliance. Approximately \$2.6 billion in public deposits is secured by collateral pledged to the Treasury Board by banks and savings institutions holding Virginia public deposits.
- The administration of the Insurance Collateral Program in a manner that ensures the accurate accounting for and safekeeping of approximately \$382.0 million in securities pledged by insurance companies transacting business in the Commonwealth as required by statute.

Check Processing and Bank Reconciliation Service Area – The responsibilities of this service area include providing support services for the receipt and disbursement of state funds. The service area is responsible for the printing and distribution of more than 7.6 million checks annually for the state payroll, retiree payments, income tax refunds, social service benefit payments, unemployment benefits, and the state's purchases of goods and services. In addition, the service area is responsible for processing stop payments and forgery claims and for reconciling 73 bank accounts that on a monthly basis exceed \$22 billion in debits and credits. The associated outcomes include:

- Disbursements are made in an accurate and timely manner. Over the last five years, Treasury processed 98.7% of all checks on time.
- Treasury's check processing equipment downloads agency check-write files, prints, barcodes, and presorts checks, all in one seamless process. Checks are grouped in zip code order, which affords the Commonwealth the greatest postage discount allowed. Postage discounts amounted to about \$230,000 in fiscal year 2005.
- Treasury's web-based program allows agencies direct access to check copies.
- Treasury's web-based Security for Public Deposit Act reporting system allows public depositories to submit their monthly public depository reports electronically over the Internet, resulting in increased efficiencies for both the depositories and the service area.
- In concert with our major banking partners, improved internal bank reconciliation systems have reduced the amount of time needed to reconcile bank accounts and clear reconciling items.

Administrative Services Service Area – Agency administration provides the day-to-day management and control of the agency. This service area includes the State Treasurer, Deputy State Treasurer and the Human Resources, Financial Policy, Information Systems, Procurement and Internal Audit areas. Key responsibilities include strategic planning, budgeting, personnel administration, legislative and regulatory coordination, policies and procedures guidance, data processing, internal audit, and the procurement of goods and services. The associated outcomes include:

- Treasury's strong management and focused strategic planning are responsible for its innovative, customer-driven, results-oriented direction and service delivery.
- A dedicated information systems staff has developed and enhanced internal programs and networks required to accomplish our mission and respond to customer needs.
- The maintenance of Treasury's Continuity of Operations Plan in such a manner that critical activities are maintained for the agency for an indefinite period at a "warm site" southwest of the City of Richmond in Chesterfield County and that check processing can be continued at a "hot site" in Pennsylvania.

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- Staff training and development programs have been conducted to maintain a productive, informed and effective workforce needed to carry out the agency's mission and program requirements. This effort, in addition to staff planning efforts, is intended to result in high retention levels, attraction of a competent staff, and development of a well-trained staff capable of producing outstanding results.
- A strong internal audit staff has ensured the integrity of information, operating systems and reports through strengthened controls intended to minimize the risk of errors.
- Financial policies and procedures have been developed to provide for a safe and productive workplace environment.
- Procurements have been made in compliance with state policies and structured to ensure the procurement of goods and services are competitively bid, that costs are reasonable and that vendors are registered on the electronic procurement system (eVA). Treasury developed a contract management report system to ensure contracts are managed properly and evaluated and reviewed on a timely basis.

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### Productivity

Treasury's measures its productivity through performance measures tied to our strategic goals and objectives in order to monitor the efficiency and effectiveness of our services to customers. Where productivity cannot be measured with performance measures, our productivity is measured by results achieved as noted in the Current Service Performance area of the Agency Strategic Plan.

Goal #1 – Encourage a culture of continuous improvement, delivering the highest quality, customer-focused services and driven by a diverse, well-trained workforce capable of accomplishing the agency's mission and being accountable for their actions. Our objective for this goal is to ensure that resources are used efficiently and programs are managed effectively, and in a manner consistent with applicable state and federal requirements. In order to ensure that this goal is met, the agency will seek a grade of "Meets Expectations" for each objective measured in each of the five criteria included in the Governor's Management Standards Scorecard by fiscal year 2008. In fiscal year 2005, the agency percentage based on the Scorecard was 100%. Achieving a grade of "Meets Expectations" for each of the five criteria measured reflects the agency's success in meeting its mission.

Goal #2 – Deliver high-quality investment services, driven by cost effective solutions, creativity and fiduciary prudence. Our objective for this goal is to enhance investment earnings for the general fund's Primary Liquidity Portfolio to exceed market benchmarks. Exceeding market rates is a measure of success in the management and investment of funds.

Over a five-year rolling average, which is considered to be a market cycle, investment earnings for the Primary Liquidity Portfolio have exceeded the benchmarked one-year Constant Maturity Treasury yield by 66 basis points above the 15 basis points target set in the performance measure.

Goal #3 – Deliver debt management and issuance services in the most efficient and effective manner while striving to maintain the Commonwealth's high debt ratings. Our objective for this goal is to execute bond transactions that on average achieve yields at or better than comparable transactions, and to take advantage of refunding opportunities.

Treasury's tax-supported debt issues have always compared favorably with current market rates, based on the Commonwealth's strong financial position and highest possible bond ratings. The new performance measure for this objective will verify our success.

The excellent management of the Commonwealth's debt obligations and strong working relationship Treasury has with the national credit rating agencies has been instrumental in maintaining the Commonwealth's coveted triple-A credit ratings. Virginia is one of only a limited number of states in the nation with triple-A credit ratings from all three credit rating agencies.

Goal #4 – Deliver the highest quality, cost effective risk management services to meet the needs of the Commonwealth. Our objective for this goal is to improve efficiency of the service area's responses to clients' requests for services by providing on-line access to clients and measuring the usage by clients of the on-line system. Measurement of client usage of the on-line system to access services and products provided by the service area is critical to determining client satisfaction and addressing client needs.

This is a new performance measure for this service area. Our target is to achieve a 25% increase in self-service transactions by fiscal year 2008.

Goal #5 – Deliver the most efficient and responsive unclaimed property program possible in an effort to meet the needs of our citizens and holders. Our objective for this goal is to increase the percentage of valid unclaimed property claims paid within 60 calendar days of receipt of verifying information. Measurement of the response time to return unclaimed property to the rightful owner is critical to addressing customer needs.

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Over the last five years, the percentage of valid unclaimed property claims that were paid within 90 calendar days exceeded 99.0%. Our target is to pay 95% of such claims within 60 days.

Goal #6 – Deliver statewide and agency accounting, budgeting, trust, and operational services timely and accurately while striving to improve efficiency, promote accountability, and reduce costs. Our objectives for this goal are to ensure that all debt obligations are paid on time, to ensure that all check disbursements are made on a timely basis, and to increase the percentage of bank reconciling items that are cleared within 60 days of the end of the bank statement month. Paying all debt obligations on time ensures that we meet the requirement of bond covenants, continue to receive the highest bond ratings possible, and keep our trust with bondholders. Check disbursements are made on a timely basis to meet the requirements of the Prompt Payment Act. Ensuring that bank reconciling items are cleared on a timely basis promotes sound accounting practices needed for the management of payments and receipts.

Over the last five years, 100% of all debt service payments have been made on a timely basis and the percentage of checks processed and distributed on a timely basis has exceeded 99.7%. Over the past three years, the number of bank reconciling items that are cleared within 60 days has exceeded 99.6%.

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### **Major Initiatives and Related Progress**

Increase in Electronic Payments and Reduction in Check Volume – Treasury is continuing its efforts to work with check-writing agencies to reduce check volume by converting payments to an electronic format. This effort will greatly reduce risk of loss and reduce costs. Since 2003, check volume has been reduced by 1.4 million checks. The Department of Taxation's i-file system has increased electronic tax refund payments every year. Treasury worked with the Department of Social Services to get a direct deposit program started for TANAF check recipients to go along with the child support direct deposit program already in place. The Department of Accounts now requires employee expense reimbursement payments to be electronic. Treasury is working with the Virginia Employment Commission to begin a direct deposit program for unemployment checks. A pilot program using pay cards to pay Virginia Employment Commission beneficiaries electronically will begin in June, 2006.

Conversion of Securities Lending Program – Treasury previously used their Master Custodian as their securities lending agent as this arrangement provided for the most risk adverse and seamless program. As a result of the RFP for master custody and securities lending issued in fiscal year 2006, Treasury awarded the securities lending contract to Dresdner Bank, a third party lender. The Dresdner Bank proposal provides an 80/20 split on earnings and a \$3 million minimum guarantee for earnings to the Commonwealth during the first year. During 2005 the total securities lending income for Treasury and Lottery was \$1,894,000. Dresdner Bank projected earnings of at least \$4,800,000 after fees for the first year. If the total annual earnings or revenues after fees exceed \$5 million, the revenue sharing split becomes 85/15 on the amount over \$5 million.

VPSA Refunding Savings - The Virginia Public School Authority (VPSA) implemented an innovative program for the return of refunding savings to local participants in certain refunded pooled bond issues. The enactment of Chapter 223 effective July 1, 2006 provides for a more efficient and timely return of lump sum savings due to these localities. A total of \$14.6 million in refinancing savings will be provided to 45 cities and counties and their school divisions. Specifically, the VPSA will be crediting the counties and cities involved with their shares of debt service savings realized by VPSA in three recent refunding transactions. These savings will be realized by the localities on July, 15, 2006 in the form of one time credits against debt service other wise payable on that date to the VPSA. This new return of refunding savings process will also be available for any future refundings.

Tobacco Securitization – With the assistance of Treasury, the Tobacco Settlement Financing Corporation successfully completed the sale of \$448,260,000 tobacco Settlement Asset-Backed bonds in May 2005. The sale involved securitization of 25% of the Master Settlement Agreement (MSA) payments allocated to the Commonwealth. Nearly \$390 million was used to establish an endowment to benefit the Tobacco Indemnification and Community Revitalization Commission. During fiscal year 2006, procedures related to Treasury's role as staff to the issuer, and Treasury Board's role in the trustee/custodian of the Endowment were put in place.

Debt Refundings Issues - In fiscal year 2005, Treasury issued debt totaling \$3.1 billion, of which \$1.4 billion represented refundings that generated \$55.0 million in savings (\$16.0 million to localities and the remaining \$39 million to the Commonwealth.)

Variable Rate Adoption - Following the lead of the Treasury Board, the Virginia College Building Authority (VCBA), the Virginia Public Building Authority (VPBA) and the Virginia Public School Authority (VPSA) each adopted a Variable Rate Debt Policy. These variable rate programs may present opportunities for interest rate savings, flexibility, portfolio diversity, and hedging on interest rate exposure. The VPBA completed the initial issuance of variable rate bonds in December 2005.

VCBA Pooled Bond Adoption - The Virginia College Building Authority adopted guidelines for the VCBA Pooled Bond Program. These guidelines are posted on Treasury's website and provide guidance for institutions of higher education seeking to fund 9(d) revenue bond projects through the VCBA Pooled Bond Program.



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Energy Leasing Program - Established in fiscal year 2006 to address an increased interest by agencies for financing energy efficiency projects. The program enables agencies to obtain consistent and competitive credit terms for financing energy efficiency improvements and provides a financing vehicle for projects that the agency has evaluated and determined to be appropriate and cost effective.

9(d) Workshops for Higher Education - To address the financial implications of increased 9(d) revenue bond authorizations, Debt Management hosted a workshop for institutions of higher education on debt policy and debt capacity. The purpose of the workshop was to give participants the tools they need to develop debt policies and monitor debt capacity.

Electronic Reporting by Unclaimed Property Holders - Several years ago, Treasury recognized the need to have holders of unclaimed property to report their unclaimed property utilizing electronic files to facilitate faster, more accurate loading of the data into the unclaimed property database. However, without statutory authority requiring holders to report electronically, many continued to send in paper reports, causing the Records & Receipts unit to spend a large amount of processing time on the paper reports. Treasury sought legislation and it was passed in the 2004 legislative session to require any holder having 25 or more properties to report electronically. Prior to the bill's enactment, the Records & Receipts unit received 2,150 electronic reports during fiscal year 2004. In fiscal year 2005, the number of electronic reports received had tripled, to 6,386. Although it was expected that the number of paper reports would decrease, the number increased from 2,224 in fiscal year 2004 to 4,781. The increase in overall reports received is attributed to an extensive amnesty campaign in 2004 to encourage holder companies to regularly report their unclaimed property as required by the Act. Without the new electronic requirements, many more hardcopy reports would have been received, and the Records & Receipts unit would have been unable to handle the increased volume with the current staffing levels.

Unclaimed Property Holder Compliance - During fiscal year 2004, Treasury worked aggressively to educate the holder community regarding compliance with the Unclaimed Property Act through presentations to the holder community and accounting and law firms. In addition, Treasury initiated an amnesty campaign to encourage holder compliance. As a result, the amnesty and voluntary compliance program generated remittances of \$2.7 million from 649 holders that had not previously reported.

Unclaimed Property Demutualization Proceeds - The 2003 General Assembly passed legislation to clarify and accelerate the reporting requirements for demutualization proceeds for insurance companies that had undergone a change in their corporate ownership. Since enactment of the law, Treasury has received 15 demutualization reports from 7 companies totaling \$20.6 million in cash plus nearly 919,000 shares of stock for the benefit of 93,043 owners. In fiscal year 2005, Treasury advertised the reported owners names, which resulted in 3,784 cash claims totaling \$2.0 million and 2,015 stock claims.

Unclaimed Property Stock Claims Module - In fiscal year 2005, a new module was activated in the Unclaimed Property System that allowed for the calculation of stock claims instead of paying a vendor to research stock histories and calculate dividend amounts. As a result, 1,887 stock claim calculations have been performed, saving a total of \$94,200 in vendor fees.

Unclaimed Property Website Searches and System Integration Improvements - Treasury developed an improved web search application. The new on-line application improved the speed and efficiency of property searches by citizens and staff. Claim inquiries created are now delivered to staff in electronic form instead of paper form, increasing efficiency and reducing paperwork.

Payee Match Check Security Service - Treasury will begin using new check security feature offered by Commonwealth's disbursement banks that matches check payee name to the payee name submitted on the check issue files transmitted to the disbursement banks to detect alterations of payee names on checks. This is an extension of the banks' positive pay feature that currently matches the amount per the physical check to the check issue file submitted to the banks.

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### **Virginia Ranking and Trends**

Virginia has a long tradition of good management. Virginia received the top score in the Government Performance Project's "Grading the States 2005" report, the nation's only comprehensive, independent analysis of how well each state is managed. Virginia received an overall score of "A-" and is the only state in the nation with straight A's across the board in four categories: money, people, infrastructure, and information.

One area of particular interest to Treasury was the Commonwealth's ranking on its money management, which received a score of "A". Bond credit ratings can be considered the ultimate financial performance measure of a state, and the Commonwealth has consistently earned a triple-A general obligation bond credit rating from each of the three bond rating agencies. This translates to lower borrowing costs for general obligation bonds as well as all related Commonwealth borrowing programs. Treasury has been instrumental in cultivating effective relationships with the rating agencies and keeping them informed of the state's strong financial position.

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### Customer Trends and Coverage

Electronic Communications – A large percentage of all communications are now done via e-mail and websites. Many customers and business partners are tending toward electronic communication, with websites becoming more and more popular as a format for both assessing and providing information. Electronic commerce is continuing to grow through the state's electronic procurement portal, eVA. Treasury continues to expand the use of its website to communicate with the public.

Local Government Investment Pool (LGIP) – With the successful assignment of a AAAm rating of the LGIP by Standard & Poor's (S&P), the number of pool shareholders will be retained and continue to grow. The compliance requirements of S&P will create additional work and require a closer monitoring of the type and maturity of investments to meet reporting, compliance and credit review requirements.

Greater Autonomy for Institutions of Higher Education – Institutions of higher education gained opportunity for greater autonomy through the Restructured Higher Education Financial and Administrative Operations Act of 2005. The initiative will place greater reliance on the institution's ability to access its own debt capacity and oversee its debt programs. The institution's continued access to Treasury financing programs must be evaluated and policies developed to protect the integrity and credit quality of the programs. To that end, Debt Management hosted a workshop for institutions of higher education on debt policy and debt capacity. The purpose of the workshop was to give participants the tools they need to develop debt policies and monitor debt capacity.

Public Private Partnerships Activity and Alternative Financing Structures – Submissions under the Public-Private Educational Infrastructure Act, Public-Private Transportation Act and structures involving alternative financing arrangements continue to require resources to evaluate, review and comment on the financing implications of these proposals.

Increasing Interest Rates – Economic indicators suggest a rising interest rate environment for the foreseeable future. This may increase use in variable products and techniques to contain borrowing costs. Higher rates will affect budget projections.

Greater Use of the State Insurance Reserve Fund for Non-Traditional Coverage – Effective July 1, 2005, Treasury began the newly legislated program of providing liability defense to attorneys appointed as receivers by the Virginia Bar. This has followed similar statutory actions requiring liability coverage for court-appointed attorneys and pro bono attorneys. Over the past five years, the State Insurance Reserve Trust Fund has been statutorily required to provide insurance coverage to free health care clinics, individual health care providers serving indigent persons, and guardians assisting recipients of mental health care services. It is anticipated there will be continued placement of certain public service type private and not-for-profit organizations and individuals under the protection of the state risk management plans.

Growth in Unclaimed Property Holder Reporting – Increased holder education increases the number of holders reporting unclaimed property to the Commonwealth. As holders become more aware of the requirements of the Unclaimed Property Act, the amount of unclaimed property reported will increase, resulting in increased workloads to record such property and to locate potential owners.

Growth in Unclaimed Property Claims – A searchable database available at the Treasury website has generated significantly more inquiries. This database is available 24/7 and allows for those searching for property to initiate inquiries while visiting the website. Any media attention to unclaimed property or direct promotion of this search site significantly increases the number of owners submitting inquiries and filing claims for property.

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### Future Direction, Expectations, and Priorities

Replacement of Retiring Workforce and Other Workforce Issues – Treasury has an aging workforce. Presently, 82% of our full-time employees are 40 years or older, with 40% over the age of 50. Currently, 34 employees are either eligible to retire or will be eligible for retirement within the next five years. The average age of our employees is 48 and the average number of years of service is 9 years. Based on the past five years, we can expect to lose on average approximately 10 employees per year for reasons other than retirement. Add to that the number who could retire in the next five years and Treasury could face a serious staffing problem. The development and training of our workforce is a top priority. A comprehensive analysis of training needs is underway. We are examining the gap between our workforce's current knowledge and skill level and the level needed for a smooth transition as our tenured and senior level employees retire. Additional funding will be requested to supply the programs needed to address this gap.

Future Risk Management Requirements – Insurance coverage needs have steadily increased as statutory requirements have expanded coverage. Over the past five years, the State Insurance Reserve Trust Fund has been statutorily required to provide insurance coverage to free health care clinics, individual health care providers serving indigent persons, guardians assisting recipients of mental health care services, court appointed attorneys and pro bono attorneys providing services to indigents and legal defense to attorneys appointed as receivers by the Virginia Bar. It is expected that losses incurred from this expanded coverage will increase and must be paid when due and without delay. It is difficult for actuaries to assess these kinds of exposures. It will be necessary for Treasury to forecast contributions needed from plan participants to maintain a healthy insurance reserve fund. This will be a top priority for the agency.

General Account Investment Policies and Guidelines Review – Treasury plans on having a full-scale review of our General Account Investment Policies and Guidelines. The last major review was in 1994. We have had two five-year updates and investment guidelines are reviewed annually. During this time the dynamics of this portfolio and Virginia government have changed and the financial markets we operate in have reinvented themselves. Major cyclical and structural changes have occurred in interest rates, yield curves and inflation. Also, credit exposure premiums, extension premiums, the value of options, etc. have changed and many completely new products have become available. One of the major areas of review will be asset allocation and the optimum duration of the portfolio.

Master Settlement Payment reductions – In fiscal year 2006, certain participating manufacturers withheld a portion of their MSA payments pending resolution of a non-participating manufacturer (NPM) adjustment. Although this did not have a significant negative impact on the outstanding Tobacco bonds, it is likely to be an on-going and increasingly significant issue which may require more active administration and disclosure, and may slow the redemption and payment of Tobacco bonds.

Check 21 Act Initiative – The Check 21 initiative was a federal initiative signed into law in October 2004 to speed the clearing of paper checks through banks. One of the features of the new law related to the ability to deposit check images versus the actual checks. Treasury is working with a state agency and financial institution partner to allow the agency to take advantage of this feature in order to speed the deposit of checks received and improve the agency's efficiency.

Electronic Payment Cards – Treasury is reviewing the development of an electronic payment card that could be used to pay state employees or state beneficiaries that do not have checking accounts and would not be eligible for direct deposit. Treasury has selected a pay card vendor, and pilot programs began in fiscal year 2006 to use these cards for electronic payments for payroll and the Virginia Employment Commission and Department of Social Services beneficiaries. This product would result in an alternative payment mechanism that is both efficient for an agency and safe for recipients.

Unclaimed Property Telephone System – As the public becomes more aware of the unclaimed property program, the increased awareness generates a larger volume of claim inquiries. Treasury is researching the

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development of an interactive voice response call center solution to improve customer satisfaction and the efficiency with which the agency handles inquiries and claims for unclaimed property. The new system is expected to provide an automated call distribution platform that will distribute callers to skilled agents in an efficient manner and provide information to callers in an automated, self-service format.

Customer Service Enhancements for Unclaimed Property Inquiries and Claims – Treasury continues to look for ways to provide citizens with the best customer service possible. Treasury would like to employ an experienced legal assistant to review and process complex testate and intestate estate claims and trusts. These claims would move through the review process and be paid to the rightful owners more efficiently and expeditiously. Treasury will also begin image and review electronic claims documentation rather than the paper documents. Imaging of claims documentation will make the review process quicker.

SWAM Vendor Usage Increase – One of the Administration’s priorities is to expand the usage of small, women and minority-owned business that provide services to the Commonwealth. Treasury is a statewide provider of services that must use vendors that have the resources and capacity to provide such statewide services. As a result, our amount of truly discretionary funds is limited. Nevertheless, Treasury is using its procurement resources and those of the Department of Minority Business Enterprise to identify SWAM vendors in an effort to increase our usage of such vendors.

Increase in Electronic Payments and Reduction in Check Volume – As more electronic products and technological advances become available for the transfer of funds, Treasury is striving to work with state agencies to take advantage of these electronic products in order to convert such payments to an electronic format. This will greatly reduce risk of loss, provide for a more efficient payment system and reduce costs.

Facilitate Adoption of Debt Capacity Guidelines by Colleges and Universities – As higher education institutions continue to make use of debt obligations to fund capital construction either by issuing their own debt or issuing debt through one of the debt issuing boards, Treasury has been concerned about the ability of such institutions to measure their capacity for debt and to maintain and improve their bond ratings. As a result, Treasury will continue to encourage and facilitate the adoption of debt capacity guidelines by the institutions’ Board of Visitors. A number of higher education institutions have adopted guidelines using material and information received from the Debt Capacity Workshop held by Treasury.

# Agency Strategic Plan

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### Impediments

Reduction in Check Volume – For a number of reasons, various check disbursing state agencies have been slow to implement electronic payment initiatives recommended by Treasury, which hinders our ability to reduce check volume.

Hiring and Retention of Staff – As the U. S. economy continues to improve and the Commonwealth's salary structure and reward system remains constant, Treasury will continue to be challenged in hiring and retaining superior employees.

Exemptions to Unclaimed Property Act - While reported unclaimed property has increased in recent years, there are areas in state law where exemptions have been granted that provide limited consumer protection for property. In addition, unclaimed property holders are continually looking at ways to service charge different types of property for lack of use. Currently, the Unclaimed Property Act has a service charge provision relating charges by financial institutions only. Service charge transactions need to be clarified in the Act regarding other types of property such as payroll checks, money orders and electronic stored value cards. Exemptions of certain property from the Act and service charges by holders hinder the ability of Treasury to recover such property for the rightful owners.

Failure of Federal Government to Report Unclaimed Property – Currently, federal government agencies do not report unclaimed property to Virginia that belongs to Virginia citizens, including such property as matured U.S. Savings Bonds, IRS tax refunds, HUD escrow funds and U.S. Postal Service Money Orders. Such failure hinders the ability of Treasury to recover such property for the rightful owners. This issue continues to be discussed nationally and a committee of representatives from the National Association of State Treasurers (NAST) and the National Association of Unclaimed Property Administrators (NAUPA) are working with a member of Congress to introduce legislation to force some location efforts for U.S. Savings Bonds.

State Insurance Reserve Trust Fund Transfers – The Commonwealth has a need for an insurance program of adequate, consistent and reliable financial contributions (premiums) from participating clients. Annual premiums are based, in part, upon available insurance reserve fund balances. There has been a history of money transfers from the State Insurance Reserve Trust Fund to the General Fund and elsewhere, with and without warning or an opportunity to prepare for such transfers. This practice, compounded with the failure to replace any of the money and the inability to increase premiums to make up for such transfers has severely weakened the State Insurance Reserve Trust Fund actuarially.

## Agency Background Information

### Statutory Authority

Treasury's statutory authority is defined in Chapter 18 of Title 2.2 (§§ 2.2-1800 through 2.2-1843) of the Code of Virginia. This chapter sets out the statutory authority and responsibilities of the Department of the Treasury and defines the duties of the position of the State Treasurer. It governs how state money is collected, invested, distributed and accounted for by the Department. It also outlines the Department's responsibility for the management of state debt as well as how it protects state assets through prudent risk management.

See Appendix B, Additional Statutory Authority Information, for additional statutory authority of the Department of the Treasury grouped by service area.

# Agency Strategic Plan

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### **Customer Base:**

<b>Customer Description</b>	<b>Served</b>	<b>Potential</b>
Boards and Authorities	25	25
Bondholders		
Business Partners	265	265
Executive Branch Officials, Agencies and Institutions	108	108
Financial Institutions Holding Virginia Public Deposits	129	129
Holders of Unclaimed Property	15,200	65,000
Insurance Companies Conducting Business in Virginia	1,100	1,100
Intra-Agency Staff	116	116
Legislative Branch	140	140
Local Government Investment Pool Customers	357	650
Local Government Officials and Participants - Insurance Services	650	1,000
Local Governments for K-12 Financing Services	134	134
Virginia Citizens	7,500,000	7,500,000

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### **Anticipated Changes In Agency Customer Base:**

Administrative Services - As indicated in the Future Direction section, Treasury is dealing with an aging workforce that will change our intra-agency customer base. Programs are underway that will address the need to hire and train replacements to our workforce.

Debt Management Services - Institutions of higher education gained opportunity for greater autonomy through the Restructured Higher Education Financial and Administrative Operations Act of 2005. The initiative will place greater reliance on the institution's ability to access its own debt capacity and oversee its debt programs. The institution's continued access to Treasury financing programs must be evaluated and policies developed to protect the integrity and credit quality of the programs. Debt Management will continue to encourage and assist institutions of higher education to develop debt management policies and monitor debt capacity by providing resources like the successful Debt Capacity workshop held in 2005. Proposals under the Public-Private Educational Infrastructure Act, Public-Private Transportation Act and alternative financings will require resources to evaluate, review and comment on the financing implications. Economic indicators suggest a rising rate environment for the foreseeable future. This may increase use of variable products and techniques to contain borrowing costs. Higher rates will affect budget projections. The Energy Leasing Program began in fall 2005 due to an increase interest by agencies in financing energy efficiency projects. The program enables agencies to obtain consistent and competitive credit terms for financing energy efficiency improvements and provides a financing vehicle for projects, which the agency has evaluated and determined to be appropriate and cost effective. Investor frustration over access to Commonwealth's bonds may prompt Debt Management to explore solutions to making more Commonwealth bonds available to retail investors while not increasing overall borrowing costs.

Banking and Investment Services - The development of new banking and cash management products made available by Treasury for agencies and institutions could increase the use of these products and impact the customer base. As institutions of higher education gain greater autonomy they have expressed interest in Treasury investment services. Effective July 1, 2008, states will be required to either pledge certain assets to cover Other Post Employment Benefits (OPEBs) or reduce their assets by this amount. Treasury may be involved with other finance agencies in developing options and/or plans for this new GASB requirement.

Insurance Services - Insurance coverage requirements have steadily increased as statutory requirements have required expanded coverage. It is anticipated there will be continued placement of certain public service type private and not-for-profit organizations and individuals under the protection of the state risk management plans which will greatly change Treasury's customer base.

Check Processing and Bank Reconciliation Services - Bank mergers and consolidations could reduce the number of financial institutions holding public deposits and the number of bank reconciliations needed. Increased conversion to electronic payments and direct deposit will reduce the number of checks processed.

Unclaimed Property Administration Services - Increased holder education and audits should increase the number of holders reporting unclaimed property. Any new legislation drafted to add new types of reportable property or to clarify the status of certain types of reportable property could increase the amount of such property reported. Improved outreach efforts and web search functionality could increase the number of unclaimed property inquiries and therefore the number of citizens served.



# Agency Strategic Plan

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### **Agency Partners:**

#### **Actuaries**

Providing actuarial services for risk management

#### **Bond and investment rating agencies**

Providing credit rating services

#### **Claims administrators and claims adjustment service providers**

Providing specialized claims administration

#### **Financial advisors**

Providing financial services

#### **Financial institutions, including concentration banks, regional depositories, master custodians, trustees, paying agents and credit card administrators**

Providing financial products and services

#### **Insurance brokers**

Providing insurance products and services

#### **Investment bankers and underwriters**

Providing financial resources and expertise to underwrite bond issues

#### **Investment management companies, investment consultants and investment dealers**

Providing investment products and services

#### **Law firms**

Providing bond counsel and other legal services

#### **Private sector vendors and contractors**

Providing goods and services

#### **State agencies**

Providing services or receiving services from Treasury

# Agency Strategic Plan

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### **Agency Products and Services:**

#### **Current Products and Services**

##### Administrative Services

- Strategic planning for the agency
- Development and monitoring of agency goals, objectives and critical issues
- Development and management of the agency's budget
- Development and management of agency policies and procedures
- Monitoring of performance of service areas
- Providing direction and assistance to boards and authorities staffed by the agency
- Legislative development and coordination
- Development and coordination of Legislative Studies
- Regulatory development and coordination
- Development and enhancement of information systems and agency programs
- Human resource personnel administration and staff development
- Internal auditing of operational functions, internal controls and risk assessment
- Procurement of agency goods and services
- Procurement contract development and management
- Facilities and telecommunications development and management
- Management of agency equipment assets and surplus property
- Freedom of Information Act management and coordination
- Development of agency publications and public relations
- Management of agency records management program

##### Debt Management Services

- Debt financing review and program administration
- Debt program administration, including compliance and continuing disclosure, investor relations, and rating agency relationships
- Issuance of bonds or other securities
- Monitoring and execution of refunding opportunities
- Lease program administration for equipment and energy project financing for state agencies
- Debt affordability analysis and recommendations to executive branch and legislature
- Staffing services to boards and authorities
- Debt financing and advisory services to agencies and higher education institutions
- School financing for local governments
- Technical assistance on the financial aspects of legislative proposals, impact on debt capacity, financial studies and initiatives

##### Banking and Investment Services

- The Local Government Investment Pool (LGIP) open to all local governments and other public entities for the investment of their excess funds in a professionally managed pool specifically structured to meet the investment needs of Virginia's public entities.
- Development and issuance of a credit card contract for the benefit of public agencies and institutions
- Administration of the Community Bankers Bank Agreement that streamlines the placement of time deposits
- Wire Transfer/disbursement services for investments, certain vendor payments, and debt service payments
- Portfolio management for the general account investments
- State Non-Arbitrage Program (SNAP)
- External investment managers program for the general account portfolio
- Statewide banking cash management contracts and agreements
- Statewide regional depository cash concentration system
- Interest income forecast and cash flow projections

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- Investment program for the Tobacco Indemnification and Community Revitalization Endowment
- Custody of financial assets held by the Commonwealth
- Securities Lending Program

### Insurance Services

- Administration of State Insurance Reserve Trust Fund
- Property insurance inventory and asset valuation
- Property and liability risk management plans
- Procurement of commercial insurance
- Administration of insurance claims and litigation management
- Loss prevention, loss control and training programs

### Unclaimed Property Administration Services

- Custodian for the unclaimed property until the rightful owner can be located
- Maintenance of the unclaimed property database
- Processing of unclaimed property claims
- Conduct educational outreach and audits to enhance holder compliance and enforcement
- Conduct owner outreach to enhance location of rightful owners
- Provide financial record keeping for all receipts of unclaimed property, claim disbursements, the securities portfolio, and escheat transactions
- Administration of searchable database on the Internet for citizens to search for unclaimed property
- Monitor escheat activities with local government officials and escheators

### Accounting and Trust Services

- Accounting for and reporting of Commonwealth debt and investments
- Payment of debt service on bonds issued
- Accounting for and reporting of Commonwealth bond and trust funds
- Preparation of annual financial statements for debt-issuing authorities staffed by Treasury including the Virginia College Building Authority, Virginia Public Building Authority, and Virginia Public School Authority
- Accounting and reporting, including the preparation of year-end financial data, for the Local Government Investment Pool and the Literary Fund
- Accounting for Treasury's risk management funds
- Administration of the Security for Public Deposits Act which protects Virginia public deposits held by banking institutions through the collateralization of securities
- Safekeeping of the securities pledged by insurance companies transacting the business of insurance in Virginia
- Accounting and budgeting for Treasury and Treasury Board

### Check Processing and Bank Reconciliation Services

- Printing and distribution of Commonwealth checks, including state payroll, retirement, tax refunds, social service benefit and child support, unemployment benefit, and vendor payment checks
- Reconciliation of state treasury bank accounts on a monthly basis to the records of the State Comptroller
- Reconciliation of the state treasury cash position daily in conjunction with the Department of Accounts
- Processing of requests by state agencies for stop payments on vendor payment and payroll checks
- Processing of forgery claims relating to all check types
- Maintenance of a database of paid Commonwealth vendor and payroll checks for research and information purposes
- Research and resolution of outstanding debits and credits on state bank accounts
- Administration of the Commonwealth's unclaimed property statutes as it relates to outstanding vendor payment and payroll checks
- Daily monitoring of the Commonwealth's disbursement and credit card accounts for unauthorized

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activity

### Factors Impacting Agency Products and Services

- As the U. S. economy continues to improve and the Commonwealth's salary structure and reward system remains constant, Treasury will continue to be challenged in hiring and retaining superior employees with which to provide the products and services our customers deserve.
- In the short term, efforts to centralize information technology will likely impact the ability of Treasury to maintain its management and administrative support services as effectively and efficiently as are currently provided and will likely increase agency costs.
- Virginia Information Technology Authority's enhanced information systems security may require additional expenditures by the agency and will likely require a request for additional funds in the current and future biennium.
- Virginia Information Technology Authority's shared rate billing model, to be disclosed in the near future, will likely require additional expenditures by the agency and require a request for additional funds in the current and future biennium.
- Customer assistance requests in the service areas of debt management, insurance services, banking and unclaimed property are expected to increase and will impact each of these service areas as more time is needed to respond to these requests with little or no increase in staff.
- Expansion of the web-based electronic government capability will increase the efficiency of Treasury management and open new, more efficient means to communicate with customers and deliver our services.
- Continued expansion of the electronic procurement system (eVA) will create new efficiencies and lower costs in the procurement of goods and services; however, for those services for which there is no eVA vendor, the eVA administrative fees incurred by the agency will continue to be a burden on the agency budget, as well as eVa charge schedule to agencies effective July 1, 2006.
- Issuance of Tobacco bonds requires Treasury staffing of an additional board (the Tobacco Settlement Financing Corporation), the investment of a separate endowment fund, and necessitates additional monitoring, management, reporting and compliance with requirements (federal, state and administrative) for the bonds and this new entity. The complexity of the structure and the interaction between the Tobacco Settlement Financing Corporation, the Treasury Board and the Tobacco Indemnification and Community Revitalization Commission makes this issue more complex than other programs managed by Treasury.
- Project financing initiatives using a dedicated revenue stream (i.e., non tax-supported or supported by a particular tax) are increasingly popular. The complexity of these structures makes them more time consuming and administratively burdensome, and results in very specialized financings that cannot utilize existing programs.
- Proposals under the Public-Private Educational Infrastructure Act, Public-Private Transportation Act and alternative financings require resources to evaluate, review and comment on the financing implications.
- Economic indicators suggest a rising rate environment for the foreseeable future. This may increase use in variable products and techniques to contain borrowing costs. Higher rates will affect budget projections.
- The volume of capital project financings and the need to track the projects in various ways (by program, by project, by authorization, those subject to cap, etc.) may require additional administrative and technical resources.
- A continued increase in separately managed portfolios increases the workload and oversight of these portfolios.
- Employment of a third-party securities lending agent versus having the securities lending function performed by the Master Custodian has increased the staff workload significantly.
- New Local Government Investment Pool AAAM rating requires timely weekly surveillance reporting to rating agency and increases reporting, compliance and credit review requirements.
- The Commonwealth has a need for an insurance program of adequate, consistent and reliable financial

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contributions (premiums) from participating clients. Annual premiums are based, in part, upon available insurance reserve fund balances. There has been a history of money transfers from the State Insurance Reserve Trust Fund to the General Fund and elsewhere, with and without warning or an opportunity to prepare for such transfers. This practice, compounded with the failure to replace any of the money and the inability to increase premiums to make up for such transfers has severely weakened the State Insurance Reserve Trust Fund actuarially.

- Insurance coverage requirements have steadily increased as statutory requirements have expanded coverage. It is anticipated there will be continued placement of certain public service type private and not-for-profit organizations and individuals under the protection of the state risk management plans, which will impact the types of insurance products and services offered.
- Over the past 4 years, insurance market forces combined with state agencies' property loss experience significantly increased the cost of commercial property insurance. Insurance Services can assist clients by providing them with loss control programs and training, but these efforts cannot eliminate negative loss experiences caused by natural disasters like floods and named windstorms, nor can they eliminate unique exposures associated with the high-risk activities and services that government must provide. Rates set by commercial insurers take into account these factors and impact the products and services offered.
- The electronic functionality made available on Treasury's searchable unclaimed property website increases the efficiency of the claims process.
- Exemptions to the Unclaimed Property Act in recent years and service charges by holders assessed on unclaimed property accounts and property impact Treasury's ability to return such property to the rightful owners.
- Treasury is researching the development of an interactive voice response call center solution to improve customer satisfaction and the efficiency with which the agency handles inquiries and claims for unclaimed property.
- The Governmental Accounting Standards Board (GASB) that establishes the accounting and financial reporting standards for governments continues to require more detailed accounting and reporting of debt and investment activity of governmental entities, which increases the workload of current staff as new pronouncements are issued and become effective.

### **Anticipated Changes in Agency Products and Services**

- The demand for additional and improved customer services may result in the need to change the way we deliver these services through system or program changes and enhancements.
- Changes in technology, regulations, legislation, best practices, industry and markets may require a more technically trained workforce and the need for additional training for the current workforce.
- As products and services expand and become more complex to deliver, management will seek to find more efficient delivery systems and programs, as well as the means to monitor the performance of these programs through the development of internal controls and additional performance measures.
- Increased information systems security will be required to protect our internal systems and client information.
- The increased complexity, expansion, regulation and management of services and products may require additional outside resources to augment staff support.
- The Restructured Higher Education Financial and Administrative Operations Act passed in 2005. Its affect on a participating institution's access to Treasury-staffed borrowing programs (e.g., Virginia College Building Authority) and the potential impact on the program's credit quality has not been determined. Further analysis and review of policy implications of the legislation are needed, and policies and guidelines will need to be amended to protect the integrity of the current bond programs.
- Variable rate debt and synthetic structures are increasingly popular with issuers and may present opportunities for interest rate savings, flexibility, portfolio diversity, and hedging on interest rate exposure. It has been determined that some level of variable rate exposure would be prudent and cost-effective for the Commonwealth. This will likely increase Treasury's products and services offered.
- The Commonwealth may expand the issuance of variable-rate debt if it is deemed advantageous to do so. Because this type of debt issuance is more complicated than more traditional debt types, the

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accounting for and administrative of variable rate debt will be more time-consuming and labor intensive.

- The Master Settlement Agreement (MSA) and non-participating manufacturer (NPM) adjustment may reduce future amounts received by the Commonwealth and impact the retirement of Tobacco bonds.
- The complexity of financings (e.g., the use of capital leases, higher education real estate foundation financed debt and other non-traditional borrowing) continues to increase.
- Growing portfolio(s), coupled with new and more complex investment options and investment programs, will require more time and a highly motivated and knowledgeable staff.
- Traditionally, the insurance services client base included state and local governmental agencies and/or their affiliates. Effective July 1, 2006, insurance services will be required by statute to provide medical professional liability coverage to private physicians and community hospitals. These clients are not affiliated with the administration of government. Under these circumstances, insurance services must be provided more in the manner of a private insurance company.
- Due to increased awareness of unclaimed property laws brought on by national media attention and other factors, reported property and claims are increasing significantly.
- The number of different types of unclaimed property financial transactions that are processed electronically is continuing to increase and will require enhanced training of staff to audit and process to determine if holders are in compliance with the Unclaimed Property Act.
- Accounting and Trust Services provides a significant amount of information to the Department of Accounts (DOA) for preparation of the Commonwealth Comprehensive Annual Financial Report (CAFR). Currently, there is approximately a six-month window from the end of the fiscal year until the publishing of the CAFR to meet governmental financial reporting standards. Within the financial community, there are discussions to tighten this reporting window to provide more timely annual financial data similar to reporting in the private sector. The shortening of this reporting timeframe would place a significant resource burden on Trust Services since it is very difficult to meet the current reporting deadlines and continue with routine daily operations. Any shortening of this reporting period would require additional resources to meet the new reporting deadline.
- The U. S. Postal Service raised postage rates in early 2006. Under the filing with the Postal Rate Commission, first class mail automation rates were raised approximately \$.016 per piece of mail. Treasury mails approximately 3.1 million checks annually for which it pays the postage costs. These checks include vendor payment, tax refund, and retirement checks. Another postage rate increase in calendar year 2007 is also anticipated.
- Treasury continues to encourage the use of electronic payment mechanisms instead of checks as a means to make payment to state clients, taxpayers, retirees, employees, and vendors. Since Treasury charges the Department of Social Services, the Virginia Employment Commission, and the Virginia Retirement Systems for its check production services, as these agencies switch to electronic payment mechanisms over checks, it will impact the cost of Treasury's check production services and the funding streams to pay these costs. The switch to electronic payments will need to be monitored closely going forward so the impact on the check processing function can be evaluated and any necessary changes in production be made timely.
- The transition of the eVa application to the Department of General Services will require fees to the agency for use of eVa. These fees will increase the cost of agency procurement.

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### Agency Financial Resources Summary:

Treasury base budget is funded 52% from general funds (\$8.9 million) and 48% from non-general funds (\$8.3 million). The non-general fund sources are: \$3.9 million from the receipt of unclaimed property used to administer the Commonwealth's unclaimed property laws; \$2.1 million from charges to state agencies and localities for insurance coverage; \$.6 million from charges to select agencies for check printing services; \$.3 million from charges to debt issuing authorities and agencies for debt issuance and management services; \$.2 million for investment services provided to state and local governments; and \$.7 million for fees charged financial institutions and insurance carriers.

Changes to the base budget include: salary for an additional accountant in Accounting and Trust Services to provide accounting research, systems evaluations and modifications to meet new reporting standards and requests for information and to serve as liaison to DOA and APA relating to financial reporting issues; salary for an administrative assistant in the Banking and Investment Services to assist with general administration functions of the department and help staff with the administration of and reporting requirements of new programs added during the past year, which include SNAP, TICR endowment and third-party securities lending, and provide back-up to the LGIP client service position; and an additional appropriation for a postage rate increase in the new biennium.

	<u>Fiscal Year 2007</u>		<u>Fiscal Year 2008</u>	
	<b>General Fund</b>	<b>Nongeneral Fund</b>	<b>General Fund</b>	<b>Nongeneral Fund</b>
<b>Base Budget</b>	\$8,513,986	\$7,885,709	\$8,513,986	\$7,885,709
<b>Changes To Base</b>	\$337,734	\$398,138	\$337,278	\$404,063
<b>AGENCY TOTAL</b>	<b>\$8,851,720</b>	<b>\$8,283,847</b>	<b>\$8,851,264</b>	<b>\$8,289,772</b>

### Agency Human Resources Summary:

#### **Human Resources Overview**

The Department of the Treasury has an authorized FTE level of 123 positions with 103 positions currently filled and 20 vacancies, of which 14 are being actively recruited. The 123 positions are spread among seven service areas: Administrative Services (13); Debt Management (11); Insurance Services (18); Banking and Investment Services (10); Unclaimed Property Administration (41); Accounting and Trust Services (10); and Check Process and Bank Reconciliation (20). Of the 123 authorized positions, 47 are funded with General Funds and 76 positions are funded with Nongeneral Funds. See Appendix C for summary Organization Chart.

#### **Full-Time Equivalent (FTE) Position Summary**

Effective Date: 6/1/2006

Total Authorized Position level .....	123
Vacant Positions .....	20
Non-Classified (Filled).....	0
Full-Time Classified (Filled) .....	103
Part-Time Classified (Filled) .....	0
Faculty (Filled) .....	0
Wage .....	4
Contract Employees .....	0
Total Human Resource Level .....	<b>107</b>

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### **Factors Impacting Human Resources**

Treasury is dealing with an aging workforce. Presently, 82% of our full-time employees are 40 years or older. Currently, 34 employees are either eligible to retire or will be eligible for retirement within the next five years.

Treasury attracts employees who are experts in their fields in order to service the demands of a critical, Level I finance agency. Treasury employees are recruitment targets by banking, finance, investment, and insurance firms, and other finance agencies. Treasury needs the ability to offer attractive salaries and training opportunities in order to retain and motivate its employees.

Based on the past five years, Treasury can expect to lose on average approximately 10 employees per year for reasons other than retirement. Add to that the number that could retire in the next five years, and Treasury could face a serious staffing problem. Treasury salaries are below market as compared with the private sector, with Richmond area local government entities and even other state agencies. In addition, the demands of the Sarbanes-Oxley Act have compelled private employers to increase the number of accounting and finance professionals, leaving a smaller pool of qualified applicants in the accounting and finance profession and making recruiting that much more difficult.

### **Anticipated Changes in Human Resources**

In the next five years, we expect that the need to hire, train and retain the qualified employees will become more challenging as the U.S. economy continues to improve. We can expect to see a continued increase in health insurance premiums, as well as increases in the cost of co-payments for service and prescription drugs. The retirement programs will suffer unprecedented strain when large numbers of new retirees begin drawing on the plan. Recruitment strategies will be needed that highlight the benefits of state service at a time when private companies are cutting back on health benefits and many pension funds are on the verge of collapse.

Because of the possibility of 30% of Treasury's workforce retiring within the next five years, remaining staff must have the skills necessary to fill those vacated positions. In addition, Treasury's Continuity of Operations Plan requires that all staff be cross trained where possible to back up their fellow employees who may be out of work an extended period of time. If the anticipated flu pandemic does indeed hit Virginia, it is estimated that as many as 30% of the population will be affected and absent from work.

In order for Treasury to attract the most qualified staff, funding will be needed to improve staff salaries and, in some cases, provide signing bonuses for hard-to-fill positions. Funding will also be needed to provide training for all positions within Treasury.

### **Agency Information Technology Summary:**

#### **Current State / Issues**

The practical and financial impacts of the impending transfer of control and ownership of agency information systems to VITA have yet to be fully determined. While VITA's ownership and control of hardware, network and help-desk, will standardize and simplify certain aspects of the support of agency systems, it may complicate others. Issues concerning the security of systems and of data will need to be constantly monitored and addressed. The financial impact to the agency's budget will be determined in July and August of 2006 subsequent to the negotiation of the non-labor portion of the Memorandum of Understanding between VITA and the Treasury.

The impending transfer of control and ownership of agency information systems to VITA will greatly simplify Continuity of Operations (COOP) planning and implementation. VITA will have a built-in hot-site Data Center in southwest Virginia by 2007 or 2008. Until that time, Treasury's COOP needs are met by two alternate processing locations: a "warm site" just southwest of the City of Richmond in Chesterfield County and a check processing "hot site" in Pennsylvania. The critical assumptions for the



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COOP are that “critical activities” can be maintained for the agency for an indefinite period. Data is replicated to the “warm site” during slower periods of the day and ensure that the “worst-case scenario” is losing one day’s data. Both resources are tested regularly for critical business activities

Treasury has a robust in-house custom application development capability to meet its business needs. This environment has proven responsive and cost effective in meeting the ever changing dynamics of the automated information processing. Treasury has been working for the previous decade to move all of its applications to one platform, Client/Server, to optimize flexibility in meeting user’s needs and to quickly address new initiatives.

See Appendix A, Information Technology Investments, for additional detailed information.

### Factor Impacting Information Technology

- Changes driven by VITA integration and transformation activities may affect the agency’s ability to respond to its customers and partners. VITA’s integration efforts have added an additional layer of reporting, particularly with supervisory efforts, but also with strategic planning. Currently agency strategic planning efforts are split with VITA planning deadlines occurring prior to those of the agency’s budgetary deadlines. Strategic planning efforts need to be part of a unified effort driven by the agency’s mission with technology concerns as a resource necessary, rather than an end by itself. Careful attention must be given to balance human resource and technology efficiency with business planning and continuity.
- Technology “generations” or “cycles” are typically considered to be about eighteen months, hence biennial budgetary strategic planning necessarily requires a best estimate of future needs. These cycles dictate software and hardware upgrades to maintain compatibility and interoperability with and to serve other government and private entities.
- “Spy ware”, “identity theft”, and “hacking” are current concerns and securing the Commonwealth’s and its citizen’s resources will be of primary importance and center of focus of safeguarding the “Common Wealth” of Virginia’s citizens. Changes in policies procedures guidelines and standards to this end may require additional resources in hardware, software and personnel.

### Anticipated Changes / Desired State

- Treasury expects to receive high-quality and timely service from VITA with either no increase or a reasonable increase in service costs. Any increase in VITA service fees may result in the agency requesting additional funds to cover the increase.
- The ideal development environment is that of one free from the institutional bias toward particular technologies, both hardware and software, that generally accompanies centralized efforts.

### Agency Information Technology Investments:

	<u>Cost-Fiscal Year 2007</u>		<u>Cost-Fiscal Year 2008</u>	
	General Fund	Nongeneral Fund	General Fund	Nongeneral Fund
Major IT Projects	\$0	\$0	\$0	\$0
Non-Major IT Projects	\$0	\$0	\$0	\$0
Major IT Procurements	\$0	\$0	\$0	\$0
Non-Major IT Procurements	\$0	\$0	\$0	\$0
<b>Totals</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### Agency Capital Investments Summary:

#### Current State / Issues

None.

#### Factors Impacting Capital Investments

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### Capital Investment Alignment

## Agency Goals

### Goal #1:

***Encourage a culture of continuous improvement, delivering the highest quality, customer-focused services possible and driven by a diverse, well-trained workforce capable of accomplishing the agency's mission and being accountable for their actions.***

#### **Goal Summary and Alignment:**

This goal aligns with the agency's mission of serving the Commonwealth by providing excellent financial management and outstanding customer service.

#### **Statewide Goals Supported by Goal #1**

- Be recognized as the best-managed state in the nation.

*This goal aligns with the Commonwealth's long-term goals to be a national leader in the preservation and enhancement of our economy, to engage and inform citizens to ensure we serve their interests, and to be recognized as the best managed state in the nation.*

### Goal #2:

***Deliver high-quality cash management services, driven by cost effective solutions, creativity and fiduciary prudence.***

#### **Goal Summary and Alignment:**

In order for the Department of the Treasury to accomplish its mission of serving the Commonwealth by providing excellent financial management and outstanding customer service, the Department must (1) provide for the effective management of state and local government funds to maximize investment earnings within levels of prudence established by statute and guidelines, (2) manage and administer a LGIP that provides value to local governments which choose to invest their funds in the LGIP, and (3) work with agencies and institutions, as well as financial institution partners, to implement an effective and efficient statewide banking network developed to provide state-of-the-art cash management services to ensure the highest quality services are available to our customers.

#### **Statewide Goals Supported by Goal #2**

- Be recognized as the best-managed state in the nation.

*This goal aligns with the Commonwealth's long-term goals to be a national leader in the preservation and enhancement of our economy, to engage and inform citizens to ensure we serve their interests, and to be recognized as the best managed state in the nation.*

### Goal #3:

***Deliver debt management and issuance services in the most efficient and effective manner while striving to maintain the Commonwealth's high debt ratings.***

#### **Goal Summary and Alignment:**

In order for the Department of the Treasury to accomplish its mission of serving the Commonwealth by providing excellent financial management and outstanding customer service, the Department must (1) provide for debt financing in the most efficient and cost-effective manner, while ensuring the most favorable borrowing rates available, (2) ensure debt financings are provided in compliance with statutes and regulations to maintain the tax-exempt status of bonds, and (3) provide advice, assistance, access to programs and accurate information to customers.

# Agency Strategic Plan

## Department of the Treasury

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### **Statewide Goals Supported by Goal #3**

- Be recognized as the best-managed state in the nation.

*This goal aligns with the Commonwealth's long-term goals to be a national leader in the preservation and enhancement of our economy, to engage and inform citizens to ensure we serve their interests, and to be recognized as the best managed state in the nation.*

### **Goal #4:**

***Deliver the highest quality, cost effective risk management services to meet the needs of the Commonwealth.***

#### **Goal Summary and Alignment:**

In order for the Department of the Treasury to accomplish its mission of serving the Commonwealth by providing excellent financial management and outstanding customer service, the Department must provide for protection of the assets of the Commonwealth through (1) superior insurance and risk management services, (2) excellent claims and litigation management, (3) expert consultation services and loss prevention and control training (4) prudent and cost effective management of the State Insurance Reserve Trust Fund, and (5) outstanding customer service.

### **Statewide Goals Supported by Goal #4**

- Be recognized as the best-managed state in the nation.

*This goal aligns with the Commonwealth's long-term goals to be a national leader in the preservation and enhancement of our economy, to engage and inform citizens to ensure we serve their interests, and to be recognized as the best managed state in the nation.*

### **Goal #5:**

***Deliver the most efficient and responsive unclaimed property program possible in an effort to meet the needs of our citizens and holders.***

#### **Goal Summary and Alignment:**

In order for the Department of the Treasury to accomplish its mission of serving the Commonwealth by providing excellent financial management and outstanding customer service, the Department must administer an unclaimed property program in accordance with the Uniform Disposition of Unclaimed Property Act and the Escheats Generally Statute that provides for the return of unclaimed property to the rightful owners and the return of abandoned real property to an active tax status. This program must provide for (1) effective outreach efforts to enhance the location of owners, (2) efficient claims verification and processing made in an expeditious manner to return property to the rightful owners, (3) aggressive holder compliance and enforcement efforts to enhance the required reporting of unclaimed property, and (4) effective administration of an escheat program for abandoned real property.

### **Statewide Goals Supported by Goal #5**

- Engage and inform citizens to ensure we serve their interests.

*This goal aligns with the Commonwealth's long-term goals to be a national leader in the preservation and enhancement of our economy, to engage and inform citizens to ensure we serve their interests, and to be recognized as the best managed state in the nation.*

# Agency Strategic Plan

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### **Goal #6:**

***Deliver statewide and agency accounting, budgeting, trust, and operational services timely and accurately while striving to improve efficiency, promote accountability, and reduce costs.***

#### **Goal Summary and Alignment:**

In order for the Department of the Treasury to accomplish its mission of serving the Commonwealth by providing excellent financial management and outstanding customer service, the Department must provide for (1) the accurate accounting for and preparation of financial statements for boards and authorities staffed by Treasury, (2) the accurate and timely accounting for state investments and debt structures, (3) the proper administration of and accounting for Treasury's budget, (4) the accurate and timely disbursement of state funds in accordance with the Prompt Payment Act, (5) the accurate recording of state receipts and reconciliation of bank accounts (6) the proper administration of the Security for Public Deposits Act to ensure compliance by public depositories and the safety of public deposits, and (7) the accurate accounting and safekeeping of securities pledged by insurance companies transacting business in the Commonwealth in compliance with the Insurance Collateral Program.

#### **Statewide Goals Supported by Goal #6**

- Be recognized as the best-managed state in the nation.

*This goal aligns with the Commonwealth's long-term goals to be a national leader in the preservation and enhancement of our economy, to engage and inform citizens to ensure we serve their interests, and to be recognized as the best managed state in the nation.*